

**UMKHANDLU WASEKHAYA  
IMPENDLE  
LOCAL MUNICIPALITY**



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**2016/17 Annual Budget**

Prepared in terms of the Local Government: Municipal Management Act  
(56/2003): Municipal Budget and Reporting Regulations

**26 MAY 2016**

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**Annual Budget for the Period 01 July 2016 to  
30 June 2017**

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## **1. MAYORAL SPEECH**

### **Introduction**

Since our election into office in May 2011 our municipality has gone through major challenges both at a political and administrative level. I am proud to say that challenges faced in previous years have been resolved. This is also testament to fact that for the past five years, the municipality has been receiving unqualified audit opinions from the Office of the Auditor General. Our major goal is to achieve an unqualified audit opinion without any matters of emphasis. This will thus bear that municipality has moved towards the attainment of the objects of local government as enshrined in the constitution.

I am delighted that through hard work and dedication on the part of council members, management, staff and provincial authorities Impendle Local municipality is able to table the annual budget and on time. Notwithstanding, it has to be acknowledged that this 2016/17 annual budget is tight. It is vulnerable to slight market changes such as fuel increases, salary and other increases.

### **Public Participation**

We have visited all stakeholders even those in remote areas as promised in the previous budget and IDP process during the draft annual budget process. Already we've had consultative meetings with all property owners on property rates as well as the IDP. The annual budget and tariffs will be advertised widely in the press, the website and on our notice boards. The active involvement of our ward committees in the public participation process last year and during the course of mid-year 2015/2016 was commendable. We have to further intensify the involvement of ward committees in the budget and IDP processes as this would continue to entrench participatory democracy in our communities.

### **Operating Revenue and Expenditure – A4 Revenue by Source – A4**

#### **Property rates**

- The municipality has budgeted for property rates in line with the 6% inflationary increase as guided by National Treasury circular 78. Property rates tariffs are based on the municipal second general valuation roll and supplementary valuation as required by the Municipal Property Rates Act.
- Property rates have decreased from R4,7 to R4,4 million rands compared to the draft budget earlier adopted.
- This is mainly due to Municipality granting relief to agriculture as a result of the ongoing drought, phasing in/out of Public service infrastructure and that the municipality had computed new rates tariffs that were above the norm as legislated upon investigation.

#### **Service Charges-Refuse Removal**

- These have also been budgeted at 6% increase after considering vat output payable to SARS.

- There was an error in the Mid-Year budget for 2015/16 as these were incorrectly shown inclusive of 14% VAT.
- Refuse removal has also decreased from R47k to R39k taking into account Free Basic Services component.

#### **Transfers Recognised-Operational**

- The municipality is mostly funded by grants revenue that comprise 86 % of operational revenue.
- Capital grant revenue as gazetted amounts to R11,4m and comprises of Municipal Infrastructure Grant only.
- Provincial Gazetted Operational allocations have been grouped together under SA18 as the budget template does not allow any insertions. These are made up as follows: Library Provincialisation of R559k and Community library Services of R179k.

#### **Investment Revenue**

- At 1% of revenue generation excluding DORA allocations, the municipality envies that conditional grants will be utilised in full.
- History has also shown that DORA allocations to be received and before utilisation yield on average interest of over R600 000 per annum as per audited AFS. The municipality has increased this line item from R605 to R694 thousand.

#### **Other Revenue**

- This relates to rentals either land that has not been utilised and office space (Thusong Services Centre). Agreements in place have variable percentage increase and these relate to Home Affairs, Department of Social Development, uMgungundlovu District Municipality, Independent Electoral Commission, etc and is maintained.
- Interest earned on outstanding debts have not been moved as municipality is on a huge drive to collect all outstanding monies due from customers. This extends to tracing of customers in all forms and there is a significant movement in this programme.
- Licenses and permits have not been moved as there ought to be continued engagements between the Municipality and Taxi Association to not adjust the charge for 2016/17.
- Agency services is maintained and relates to contractual agreement between the Municipality and Department of Transport: Motor Licensing and is commission based per vehicle license renewal and licensing transaction.

- The R501k relates to rates clearance certificates, photocopies and faxes, tender fees, housing conditional grant that has been ring-fenced, and LGSETA refunds due to training of employees and Councillors. Except for Housing grant and LGSETA revenue, other revenue has been budgeted at 6% increment when compared to previous year. Application has also been made to Housing Department to utilise these funds alternative to what they were meant for when received in last five years.

## **Expenditure by Type – A4**

### **Employee Related Costs / Councillors Remuneration**

- Inflationary increments of 6% for Councillors, Management and officials had been budgeted as per circular no. 1/2016 mandate from South African Local Government Bargaining Council.
- The above increment does not take employee notch movements into account. That will be performed once the salary TASK levels are received from SALGA in June/July 2016. This has also been viewed as a much anticipated standard of living increase across the board.
- The Councillor allowances are budget against the existing government gazette no 39548 dated 21 December 2015. Municipal Mayor is budget on the full time basis with a resolution being adopted at full council whilst other councillors on a part time basis as the Municipality is a plenary.
- Another important factor is the filling of critical vacant posts, **per the municipal organogram**, in relation to daily operations and for achieving effective service delivery to the community. Some of these posts have thus been budgeted for as the need to fill them rises.

### **Debt Impairment / Depreciation & Asset Impairment**

- Debt impairment relates to long overdue customer accounts over 90 days. It is a non-cash item and is budgeted at a rate being the difference of the cash the municipality intends to collect and what is not collectable from customers. This line item has also been adjusted from R350k to R1,7million.
- Depreciation and asset impairment is budgeted at current year assets to be acquired at different rates and at different procurement stages. Depreciation will always be estimated due to timing differences of procuring municipal assets. When compared to the 2015/16 annual budget, the Municipality has increased it's 2016/17 budget to R7,7m.

## **Finance Changes**

- These relate to ABSA loan that was acquired in the financial year 2014/15 for capital expenditure and bank charges. This line item is reasonably budgeted for.

## **Transfers & Grants**

- Transfers and grants the municipality can afford relate to Free Basic Electricity that is paid to Eskom on behalf of the community.
- There is an increase in value budgeted as the indigent register gets compiled annually and new members of the community are registered and are legible to receive the FBE. Another factor to consider is the increase in electricity tariff when Eskom applies to NERSA for such.

## **OTHER OPERATIONAL EXPENDITURE – A4**

### **Other Expenditure**

- Contracted services indirectly have decreased due to most expenditure items that are committed have been shown under General Expenditure. This will be corrected as the municipality moves towards the final budget stage in May 2016.
- General expenditure has been split according to the attached schedule as compiled by the municipality. Categories that have been utilised in relating to SA1 are Community, Administration, ICT, etc.

## **Capital Budget – A5**

- Slightly decreased from previous year as per Divisions of Revenue Act allocations. Capital allocation amounts to R11,4m when compared to R12m in previous year.
- Municipality has allocated for a capital budget of R30k to be funded internally in relation to acquisition of security equipment.

The bulk of the operating revenue of the municipality is derived from the equitable share allocation as well as conditional grants from both national and provincial governments. The total annual operating expenditure proposed for Impendle Local Municipality for the 2016/2017 is R59,8m which is 83% of the total annual budget of the municipality. It should be borne in mind that the annual budget is in deficit but what must be borne in mind is the increase in non-cash items.

The following are the main operating expenditure areas:

- Staff and Councillors Related Costs - R 22 941 37
- General Expenses – R 23 012 000
- Repairs and Maintenance – R 920 000

Apart from staff costs our annual operating budget focuses on the implementation of the Municipal Property Rates, Provision for depreciation, Loan Repayment, Free Basic Electricity, Electrification project, Local Economic Development, Sport, Programs for the elderly, children, youth, the disabled as well as those infected or affected by HIV & AIDS.

Repairs and maintenance is at 2% against total operational expenditure due to municipal infrastructure being fairly new and budgets towards these assets will increase in future budgets.

### **Capital Revenue and Expenditure**

The bulk of the capital revenue of the municipality is derived from the following Grants:

Municipal Infrastructure Grant allocation 2016/17 Financial year - R 11 382 000  
MIG includes 5% allocated to Project Management Unit (PMU)  
COGTA funded projects - R Nil  
Internally funded capital items for 2016/17 financial year - R 30 000

The following is a split of budget into GFS/votes as follows:

	<b>TOTAL REVENUE BUDGET</b>	<b>GFS % over total budget</b>	<b>R 61 836 534</b>
1	Executive and Council	13	R 7 837 250
2	Budget and Treasury	26	R 15 404 777
3	Corporate, Community and Social Services	16	R 9 350 466
5	Planning and development	45	R 29 244 041

	<b>TOTAL EXPENDITURE BUDGET</b>	<b>GFS % over total budget</b>	<b>R 71 737 030</b>
1	Executive and Council	10	R 7 188 285
2	Budget and Treasury	31	R 22 715 509
3	Corporate, Community and Social Services	19	R 12 860 573
4	Planning and development	40	R 28 972 663

### **PROVISIONS – A6**

- Landfill site rehabilitation provision will still be prevalent albeit being the function of the District Municipality. The municipality is, in the interim, seeking ways of obtaining the landfill site license as the dump site is being utilised and

consensus still underway with the District Municipality to take over the dump site.

- Provision for doubtful debts will be decreased drastically as state debt will be verified in completion soon by Regucom and Kano JV as appointed by National Public Works. This will thus mean increased revenue collection from government.
- Leave provision is monitored and officials are expected to take leave during the year as legislated.
- Internally the Municipality is also on the drive of enhancing revenue collection in that a plan has been put in place that is being monitored weekly by Management in reducing customer debt.

#### **CASH FLOW – A7**

- There is an expectation that the municipality will derive about 57% of property rates income during the year. The municipality collected on average R284k over the six months ending December 2015 but this rate is expected to drop since state debtors were billed on an annual basis. Through rigorous debt collection strategies and data cleansing and intervention from National Public Works through appointment of Regucom & Kano JV for state debt verification, it is achievable.
- 80 percentage point has been benchmarked for Service Charges-Refuse removal as it must be borne in mind that the only place where refuse is billed and money collected is the Village. Ignorance from customers can only hamper 100% collection hereto.
- Interest on debtors has been targeted at 60% due to ignorance from customers thus resulting in huge debt impairment at year end.
- Operational and Capital DoRA allocated grants will be received in full from National and Provincial Treasury.
- The municipality is in a funded position after adding back non-cash items amounting R9,4 million,

#### **Conclusion**

In conclusion I wish to state that this Annual Budget Speech represents as an Executive Summary of our municipality's 2016/17 to 2018/2019 Financial Years Annual Budget and captures only key factors. Details are distributed with the Draft Annual Budget Report and it is presumed that all members of this Council have acquainted themselves with details thereof.

On behalf of the people of Impendle, I move that the Annual Budget of Impendle Local Municipality for the year 2016/2017 Financial Year and the indicative annual budget for 2017/2018 to 2018/2019 Financial Years be accepted as tabled.

I thank you



## 2.1 Vision

## 2.2 Mission

### 3. COUNCIL MEMBERS

- HW Cllr SG Ndlela
- Cllr CD Gwala
- Cllr SL Mlaba
- Cllr NG Mvelase
- Cllr PP Mtolo
- Cllr KM Dlamini
- Cllr HT Zuma

- Mr SI Mabaso - Municipal Manager
- Ms GS Ngcobo – Manager: Corporate and Community Services
- Mr ZC Tshabalala – Manager: Infrastructure and Planning Services
- Mr OV Kunene – Manager: Budget and Treasury (Chief Financial Officer)

- Council adopted budget process plan in August 2015
- The Mayor established a Budget Steering Committee in terms of section 4 chapter 2 of Government Gazette No. 31804
- Management and Mayor met to compile this annual budget on the in March 2016 on numerous occasions.
- Expenditure items were budgeted according to item and vote planning per department.
- DORA allocations from both National and Provincial Treasuries were used to determine the 2016/17 annual allocations to Impendle LM for the annual budget.
- Finance Portfolio Committee met to deliberate on the Draft Budget on the 22<sup>nd</sup> March 2016.
- Council approved the draft annual budget on the 31<sup>st</sup> March 2016.
- A joint IDP/Budget roadshow between IL and DC22 was conducted on the 26<sup>th</sup> April 2016 at Imbaliyezwe.
- Comments and inputs from all stakeholder were considered as previously done per the approved Process Plan.

- The budget steering committee then met again in May 2016 to deliberate on the budget and finalised it.
- After considering all inputs, the annual budget was then revised and tabled before Council on the 26<sup>th</sup> May 2016 for approval.

## 6. ANNUAL BUDGET APPROACH

- The anticipated 2015/16 Surplus of R2,7m is made available as contribution to internally funded capital expenditure for the 2016/17 annual budget.
- GFS/Standard Classification was acknowledged in the process.
- Powers and functions were used as a guiding tool
- Tariff of charges were escalated by an average of 6% but planning tariffs were not accounted for. These will be accounted on adjustment as the municipality does not foresee a strong building development taking place. Property rates and other tariffs have been adjusted by 6%.
- Company contribution on medical aid was calculated on SALGA's collective agreement where 60% of employee's monthly premium for medical aid is cost to employer. There has been a slight change in medical aid as there is an increase of membership as a result of the December annual change and new applications that were processed.
- Annual operating expenditure budget for 2016/17 was drawn up based on the Section 72 Mid-Year Budget and Performance Assessment Report for 2015/16 and historical audited Annual Financial Statements. The capital annual budget was drawn up on the gazetted allocations by both National and Provincial Treasuries and the zero based budget approach.

## 7. FOCUS AREAS

The annual budget focuses on the following priorities as identified in the IDP:

- Implementation of Municipal Property Rates Act
- Upgrading or construction of Access Roads
- Improvement of Public participation
- Support for Local Economic Development initiatives
- Provision of Free Basic Services
- Development of Human Capital (internally within the municipality and externally in partnership with the Dept of Education and other relevant Stakeholders)
- Upgrading of information and communication systems (internally in the municipality and externally through service providers)
- Electrification Programme
- Libraries and education
- Creation of sustainable jobs

## 8. EXECUTIVE SUMMARY OF ANNUAL BUDGET FOR THREE CONSECUTIVE YEARS

	2016/2017	2017/2018	2018/2019
<b>REVENUE</b>			
Equitable Share Grant	31 349 000	32 128 000	33 615 000
Conditional Grants-Opex & Capex	23 388 000	29 563 000	25 030 000
Property Rates and other income	7 099 534	8 374 759	8 898 671
<b>Total Revenue</b>	<b>61,836,533.92</b>	<b>70 065 759</b>	<b>67 093 671</b>

<b>EXPENDITURE</b>			
Salaries and Allowances	20 634 194	22 060 232	23 383 846
General Expenses	36 493 654	42 403 281	37 897 247
Councillors Remuneration	2 307 182	2 466 972	2 614 990
Repairs and Maintenance	920 000	920 000	1 020 650
Capital Expenditure	11 382 000	11 892 000	12 320 000
<b>Total Expenditure</b>	<b>71 737 030</b>	<b>79 742 485</b>	<b>77 236 733</b>
Surplus/(Deficit)	-9 900 496	-9 676 726	-10 143 062

**NB:** The annual budgeted deficit is derived after accounting for non-cash items such as depreciation and asset impairment, debt impairment and property rates income forgone.

## 9. DoRA ALLOCATIONS FOR 2016/17 FINANCIAL YEAR

Finance Management Act grant-FMG	1 825 000
Equitable Share-ES	31 349 000
Municipal Infrastructure Grant-MIG	11 382 000
Library Grant	559 000
Library Services-Cybercadet	179 000
EPWP	1 443 000
National Electrification	8 000 000
<b>Total</b>	<b>54 737 000</b>

## 10. ANNUAL BUDGET RESOLUTIONS

To be attached as an extract from Council Minutes of a meeting to be held on 26<sup>th</sup> May 2016.

## 11. TARIFF OF CHARGES

The proposed Impendle Municipal tariff charges are attached hereto as an annexure.

## 12. FUNCTIONAL ANNUAL BUDGETS & SDBIP'S

The Annual Service Delivery and Budget Implementation Plan (SDBIP) will be tabled to the Mayor 14 days after the annual budget approval.

## 13. ANALYSIS SUPPORTING THE ANNUAL BUDGET

<b>Departments-Votes</b>	<b>Annual Revenue Budget</b>	<b>Annual Expenditure Budget</b>
Executive and Council Services	7,837,250	7,188,285
Planning and Infrastructure Services	29,244,041	28,972,663
Corporate and Community Services	9,350,466	12,860,573
Financial Services	15,404,777	22,715,509
<b>TOTAL</b>	<b>61,836,534</b>	<b>71,737,030</b>

Expenditure items include non-cash items such as depreciation and asset impairment, debt impairment and forgone income.

## 14. FISCAL OVERVIEW

In order to counter the ever rising inflation rate we have either decreased or increased the municipal revenue and expenditure accordingly. Property rates and tariffs have increased using the legislated formulae incorporating the necessary MPRA Section 17 rebates and the municipal policy deductions as reviewed. The municipality does anticipate conditional grants that would not be spent by the end of June 2016. These can be the National electrification and Housing funds. The necessary roll-over applications will be done should the municipality be in a position not to spend all its conditional grants before 31 August 2016. The necessary adjustments will be catered for in the adjustments budget once the outcome is known from National Treasury in relation to the anticipated rollovers for 2015/16 financial year. Stringent measures need to be undertaken by the municipality to curb any possible withdrawals as well as expedite service delivery to the community of Impendle.

## 15. INVESTMENTS

Conditional grant funds are invested on call accounts and utilised when required. Currently Call accounts have been opened with ABSA, Standard Bank and NED Bank to keep each and every conditional grant separately from the municipal primary account. All receipts and payments are made to and from the municipal primary account. These will be closed off on the 30<sup>th</sup> June 2016 and should there be unspent conditional grants by the 1<sup>st</sup> July 2016, new call accounts will be opened with the financial institutions offering a better rate of interest.

No	Bank	Account Number
1	NedBank	037881012463000021
2	Standard Bank	636864901
3	Standard Bank	636863484
4	Standard Bank	636863476
5	Standard Bank	258541326-004
6	ABSA	9280671957
7	ABSA	9286205518
8	ABSA	9287282125
9	ABSA	9287813716
10	ABSA	9286914797
11	NedBank	037881012463000023
12	NedBank	037881012463000024
13	NedBank	037881012463000025
14	NedBank	037881012463000026
15	NedBank	037881012463000027
16	NedBank	037881012463000028

## 16. ANNUAL BUDGET & REVENUE RELATED POLICIES AND PROCEDURES

The following policies were presented to council for review on 30<sup>th</sup> March 2016 where council took a resolution and approved the financial policies which are as follows:

- Assets Management Policy\_V2.0
- Credit Control and Debt Collection Policy\_V2.0
- Indigent Policy\_V2.0
- Banking and Investment Policy\_V2.0
- Supply Chain Management Policy\_V2.0
- Tariff Policy\_V2.0

- Subsistence and Travelling\_V2.0
- Budget Policy\_V2.0
- Anti-Corruption Policy\_V2.0
- Petty Cash Policy\_V2.0
- IT Policy\_V2.0
- Accounting Policy\_V2.0
- Rates Policy\_V2.0
- Rates By-Laws\_V2.0
- Write-Off's Policy\_V2.0
- Virement Policy\_V2.0
- Travel Allowance Policy\_V2.0

## 17. COUNCILLOR SALARIES

Councillor	Annual Package	Cell Phone Allowance	Mobile Data Card	Total Remuneration
Mayor (Ndelela SG)	740 812	20 868	3 600	765 280
Dlamini KM	221 977	20 868	3 600	246 445
Gwala CD	221 977	20 868	3 600	246 445
Mlaba SL	285 212	20 868	3 600	309 680
Mvelase NG	221 977	20 868	3 600	246 445
Mtolo PP	221 977	20 868	3 600	246 445
Zuma HT	221 977	20 868	3 600	246 445
<b>TOTAL</b>	<b>2 135 906</b>	<b>146 076</b>	<b>25 200</b>	<b>2 307 182</b>

Councillor's salaries were calculated by utilising packages obtainable from latest Notice issued by the Minister of Provincial and Local Government in January 2016. These allowances have taken into effect the 6% inflationary increase.

## 18. SECTION 57 EMPLOYEES PACKAGES

Position	S55 & S56 Annual Packages
Municipal Manager	912 720
Manager Financial Services (CFO)	848 606
Manager Infrastructure & Planning	727 833
Manager Corporate & Community	740 909
<b>Total</b>	<b>3 230 068</b>

Sec54 and Sec56 employee salaries were budgeted at inflationary increment of 6% and should be subsequently approved by Council in December 2016.

## **19. NATIONAL REPORTING FORMS TO SUPPORT THE BUDGET**

Circular 78 and Schedule A template with other supporting documents are attached herewith.

## **20. WAY FORWARD**

The municipality has to intensively embark on a program to improve its revenue. At present the municipality is largely funded by grants received from Provincial & National transfers. The implementation of the Municipal Property Rates Act is costing the Municipality more money than what the municipality can collect but there is improvement in collection.

### **COST CONTAINMENT MEASURES**

In line with budget Circular 82 and noting the tightness of the budget, the cash flow position is being monitored but the municipality needs to exercise more control in budget. Monitoring the budget effectively and efficiently and procuring goods and services as budget could lead to a more positive position as budgeted. Gone are the days for procuring unbudgeted goods and services and luxuries.

### **municipal Standard Chart of Accounts (mSCOA) Budgeting**

The municipality in its current position has budgeted for the mSCOA reform in the Finance Management Grant from National Treasury.

## **21. CLOSURE**

Impendle Local Municipality has critical resource constraints which if not addressed may strain the administration of the municipality in the short term.

I thank you

## 22. ANNEXURES

Item Number	Item
1	Annual Budget Analysis with Mayoral Speech
2	Circular 78 (N/A)
3	Annual Budget related Council Resolutions
4	Annual Budget Quality Certificate
5	Annual Budget A Schedules
6	Proposed 2016/17 Tariffs
7	Comments from Public – Not Applicable
8	Annual Service Delivery and Budget Implementation Plans (to be tabled to Mayor after Council approval)
9	Annual 2016/2017 Integrated Development Plan
10	Municipal Budget Related Policies
11	Electronic and hardcopy versions of above schedules and annexure's
12	Other Supporting Budget Annexures/Calculations